

Seminario 510. Wall Street or Main Street: Who to Bail Out?

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- PhD Candidate on Economics, University of Pennsylvania

Entrada libre. Indispensable inscribirse en el siguiente vínculo: Inscripciones

Hora: 12:00 m. (refrigerio) y 12:30 p. m. (inicio del seminario)

Tiempo de exposición: 12:30 p. m. a 2:00 p. m.

Lugar: Banco de la República, carrera 7 # 14-78, piso 13 (Sala de prensa), Bogotá D.C.

Idioma de la exposición: Español

Resumen del documento: *Housing crises are characterized by an increase in foreclosure rates that generates losses to mortgage investors. To preserve their solvency, governments have historically implemented two policies: a) offer bailouts to investors (Wall Street), and b) offer subsidies to mortgage refinancing of households to prevent additional foreclosures (Main Street). This paper studies the welfare maximizing bailout-subsidy policy for the case of the Great Recession, shaped by two frictions: a dead-weight loss of 20% on the house value that occurs during the foreclosure process, and an information friction on individual house prices that leads households to engage in strategic default to qualify for the subsidy program. I quantitatively assess the welfare maximizing policy in a heterogeneous agents' economy and find that a subsidy-only policy would have generated welfare gains of up to 0.4%, measured as consumption equivalent variation, as compared to the baseline calibration that matches TARP and HAMP programs. In contrast, a bailout-only policy would have generated a welfare loss of 0.8%.*

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